Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
1998 Biennial Regulatory Review -- Review of Depreciation Requirements For Incumbent Local Exchange Carriers	)))	CC Docket No. 98-137
	)	
Ameritech Corporation Telephone Companies' Continuing Property Records Audit, *et. al.*	)))	CC Docket No. 99-117
	)	AAD File No. 98-26
GTE Telephone Operating Companies Release of Information Obtained During Joint Audit	)))	

Reply

The National Exchange Carrier Association, Inc. submits this reply to comments filed in the above captioned matter.[1] In its *Comments*, NECA urged the Commission to take steps to assure that universal service high cost support would not be affected adversely by changes in depreciation accounting methods, as proposed by ILEC members of CALLS (Coalition for Affordable Local and Long Distance Services). NECA suggested that, if the Commission permits revised depreciation methods to be used, it should consider ways to assure stability in study area loop cost data and national average

[1] *See* 1998 Biennial Regulatory Review -- Review of Depreciation Requirements for Incumbent Local Exchange Carriers, CC Docket No. 98-137, Ameritech Corporation Telephone Operating Companies' Continuing Property Records Audit, *et.al.*, CC Docket No. 99-117, GTE Telephone Operating Companies Release of Information Obtained During Joint Audit, AAD File No. 98-26, *Further Notice of Proposed Rulemaking*, FCC 00-119, rel. Apr. 3, 2000 (*FNPRM*).

cost per loop (NACPL) data used in development of high cost loop support for rural carriers.[2]

In order to assure such stability, it is imperative that data used in the calculation of study area loop cost and NACPL remain consistent with levels that would have resulted from using the current depreciation accounting method. As such, the Commission should implement procedures to assure that any depreciation method it adopts as an option for price cap companies does not produce distortions in the existing high cost support calculation results. While regulatory flexibility is an admirable goal, it should not be achieved at the expense of high cost support for rural carriers.

In NECA's view, for NACPL calculation purposes, the preferred alternative method for achieving this consistency would be to "freeze" historical return and depreciation expense per loop components for price cap companies electing to use alternative depreciation methods.[3] This alternative would still enable carriers to use shorter amortization schedules and accelerated depreciation methods. At the same time, these companies' per-loop historical return and depreciation expense data could be used, in development of universal service high cost loop support as though there were no change in depreciation methodology.

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[2] *See* NECA *Comments*, filed Apr. 17, 2000 at 5-6.

[3] This alternative is simple, and enables a continuing "level playing field" with respect to the data used in calculating study area cost per loop and NACPL. Using this alternative, return per loop would be calculated using calendar year data from the year prior to implementation of any new depreciation methodology

Other commenters in this proceeding echo NECA's concerns. For example, National Telephone Cooperative Association (NTCA) observed that the proposed amortization would lead to adverse effects on consumers living in high cost rural areas.[4] In comments filed jointly, National Rural Telecom Association and Organization for the Promotion and Advancement of Small Telecommunications Companies (NRTA / OPASTCO) urged the Commission to consider the impact on rural ILECs' universal service support and to craft a decision which will allow the requested relief, but safeguard successfully against support reductions for rural ILECs.[5] Indiana Utility Regulatory Commission (IURC) correctly observed that,

> because loop costs of all ILECs, both rural and non-rural, are used to calculate the national average cost per loop, an increase in the expenses of these carriers would result in an increase in the national average loop cost. Such increase would result in a decrease in the amount of high cost support that is available to smaller, rural ILECs.[6]

These comments provide further evidence that the Commission has identified a potentially serious effect on its high cost support system, and that preventive safeguards are needed. And, the potential adverse impacts discussed above could occur in either a capped or uncapped high cost fund environment.[7] As shown in comments filed by

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[4] *See* NTCA *Comments*, filed Apr. 17, 2000 at 3-4.

[5] *See* NRTA / OPASTCO Comments at 3.

[6] *See* IURC *Comments,* filed Apr. 17, 2000 at 2-3.

[7] Unless data surrogates (for companies electing alternative depreciation methods) are used in calculation of study area cost per loop and NACPL, payment reductions to rural carriers would occur in an uncapped fund. This is because, under Commission rules, *all* (rural/non-rural; price cap and rate-of-return) ILECs' data are used in these calculations.

NECA and other parties, above, the Commission's concern about the effect of revised depreciation practices on high cost support is well-founded.[8]

Thus, if the Commission decides to change its existing depreciation rules for a particular class of carriers or for specific carriers, it must carefully evaluate the potential outcome vis-à-vis the universal service high cost mechanism as it applies particularly to small, rural carriers. NECA reiterates its belief that reasonable measures can be employed to prevent untoward reductions in USF payments to these carriers, while allowing the regulatory relief sought by some larger carriers.

Respectfully submitted,

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April 28, 2000

While not directly related to potential changes in depreciation methods, as NECA pointed out in its *Comments*, the "interim" cap on the universal service high cost fund continues to hinder development of service for small, rural carriers. NECA again urges the Commission to immediately remove the cap on the universal service fund, as the single most important action the Commission could take now, to assure the proliferation of universal service. *See* NECA *Comments*, filed Apr. 17, 2000, at 4-5.

[8] *See FNPRM* at ¶ 8 (note omitted).

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing Reply to Comments was served this 28th day of April 2000 by electronic delivery or US mail to the persons listed below.

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